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C O N F I D E N T I A L SECTION 01 OF 02 TOKYO 003315

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TAGS: [ECON](#) [EFIN](#) [PGOV](#) [JA](#)
SUBJECT: POSTAL PRIVATIZATION GETS POLITICAL, AGAIN

REF: A. 07 TOKYO 2716
[1](#)B. 07 TOKYO 5552

Classified By: Ambassador J. Thomas Schieffer for reasons 1.4 b/d.

Summary

[1](#)1. (C) Prime Minister Aso's recent comments about postponing the public sale of postal companies' stocks highlighted the rift between pro- and anti-reform elements in the ruling Liberal Democratic Party (LDP). Opposition efforts to legislate a postal privatization "freeze" appear to have made headway. While the LDP has blocked past efforts to deliberate the "freeze" bill in the Lower House, the party is considering allowing discussion of the bill in the current Diet session. Likelihood of passage remains low, according to one postal insider, because it would put the seats of many younger LDP members in jeopardy. That the bill is even being considered for Lower House discussion shows how far the LDP has retreated from former PM Koizumi's reform agenda. End summary.

LDP Still Split Over Postal Privatization

[1](#)2. (SBU) Postal privatization has been a lightening rod within the ruling Liberal Democratic Party (LDP) for several years. Former Prime Minister Koizumi used the privatization as his signature pledge in the LDP's landslide victory in the 2005 Lower House elections. However, to enforce party discipline on the issue he had to throw thirty-seven Diet members out of the LDP (ref A).

[1](#)3. (SBU) The return of some of those "postal rebels" to the LDP during the Abe and Fukuda administrations exposed a split in the party between pro- and anti-reform groups. The pro-reform group believes Koizumi's structural reform drive was the key to the 2005 victory and is the blueprint for enhanced economic growth and the LDP's future as a party with young and urban voters. This group includes most of the 83 "Koizumi Children" elected to their first terms on Koizumi's coattails in the 2005 landslide, the majority of whom are expected to lose their seats in the next Lower House election. The anti-reformers, on the other hand, see the

reforms as exacerbating social and regional disparities, undercutting the party's traditional rural and organizational support base, and leading to the LDP's defeat in 2007 Upper House elections (ref B).

¶4. (C) Prime Minister Aso's November 19 remarks showed how potent the discord over postal privatization remains. Aso's suggestion postal banking and insurance companies' initial public offerings (IPO) might be "frozen" or postponed led former LDP Secretary General Hidenao Nakagawa to demand publicly a "correction" of Aso's "misleading" comments, which would be "a total denial of what we have been doing so far." Aso qualified his remarks the following day, saying all he intended to convey was that postal stocks should not be floated in a down market. However, Diet members continued to provide a stream of comments to the media, prompting the Sankei newspaper to ask, "has the Prime Minister opened Pandora's box?" The timing for Aso and the LDP could not be much worse, with the administration's public support rate falling and the ruling coalition already projected to take a beating in the next Lower House election.

Postal Freeze Bill Gets New Life

¶5. (C) The small, single-issue People's New Party (PNP) has submitted legislation four times since 2007 to "revise" or "freeze" postal privatization. With eight Diet members (six of them formerly in the LDP), the PNP's four Upper House members have formed a formal voting block with the opposition Democratic Party of Japan (DPJ) to advance their legislative

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agenda. (The opposition has controlled the Upper House since July 2007.) Interlocutors have always dismissed the PNP bills' chances of passing both houses, however, because of the ruling coalition's opposition and supermajority in the Lower House.

¶6. (C) Now, however, the "Bill Regarding the Suspension of the Disposal of the Stocks of Japan Post Holdings, Japan Post Bank, and Japan Post Insurance" appears to be in play. In July the DPJ struck a deal with the PNP and one of its support organizations, the Postal Policy Study Group. Made up of special postmasters, retired postmasters, and their family members, the PPSG is a political arm of the postmasters' union, a powerful vote-gathering organization and a traditional booster for the LDP, particularly in rural areas. In the deal, the DPJ reportedly agreed to pursue the legislation more vigorously in exchange for PPSG support for its candidates in the next election. According to the press, the DPJ has now conditioned a Diet vote on the Financial Functions Strengthening Bill (a response to the global financial situation and one of the LDP's two priority bills for the current Diet session) on a Lower House vote on the postal legislation.

¶7. (C) The LDP is carefully considering how to handle the bill. A member of the Postal Services Privatization Committee (PSPC), a quasi-governmental experts' group charged with shepherding the postal privatization process, told Emboff December 2 passage of the bill would be "suicide" for the ruling party. "Even Aso understands," the committee member said, "that the 2005 elections were a referendum on postal privatization." Going back on that reform, he continued, would mean defeat for many of those representatives elected in urban areas and "might break up the LDP" by provoking the younger members to leave. Four "postal rebels," however, hold cabinet or LDP executive positions in Aso's administration. Moreover, he said some "old-guard" LDP members might go along with the DPJ in a vote. He therefore assesses chances of passage as low, but not impossible.

Comment

¶8. (C) Companies naturally seek to maximize the capital

raised through IPOs, and a Japan Post management decision to postpone would not in itself be a negative development. In contrast, the contemplated political directive to postpone -- as currently formulated, and in light of past Koizumi policies -- sends the wrong signals to the market and stakeholders about the government's commitment to reform and the character of Japan Post as an entity moving away from government control.

19. (C) Since passage of the postal privatization laws in 2005, the implementation process, while contentious, has remained largely in the realm of technocrats. Former PMs Abe and Fukuda did little to advance the postal reform agenda, but neither did they interfere with its internal momentum. That a bill is even being considered for Lower House discussion shows how far the LDP has retreated from former PM Koizumi's reform agenda, as well as how a small, single-issue party can now exploit the ruling coalition's weak control over a divided Diet.

SCHIEFFER